

CITY OF LONE TREE

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

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City of Lone Tree

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Shelley Allison	Mayor	January 1, 2006
David A. Smith	Council Member	November 8, 2005
Carl Rice Brown	Council Member	January 1, 2006
Melinda K. Wieland	Council Member	January 1, 2006
Todd E. Hayes	Council Member	January 1, 2008
Sandra Brown	Council Member	January 1, 2008
Merry Thomae	City Clerk/Treasurer	Appointed
Stephen N. Greenleaf	Attorney	Appointed



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Lone Tree, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lone Tree, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lone Tree's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lone Tree as of June 30, 2005, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated May 17, 2006 on my consideration of the City of Lone Tree's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Budgetary comparison information on page 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of Lone Tree, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lone Tree's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
May 17, 2006

City of Lone Tree
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2005

		Program Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Service	and Restricted	Contributions
			Interest	and Restricted
				Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 61,825	\$ 11,416	\$ -	\$ -
Public works	136,722	4,977	95,944	-
Health and social services	64,308	-	48,534	-
Culture and recreation	47,555	15,925	-	-
Community and economic development	189,679	-	800	-
General government	93,009	-	-	-
Debt service	179,335	-	41	-
Capital projects	378,834	-	-	352,537
Total governmental activities	<u>1,151,267</u>	<u>32,318</u>	<u>145,319</u>	<u>352,537</u>
Business type activities				
Garbage	24,796	24,404	-	-
Water	112,023	141,424	-	-
Sewer	92,014	84,113	-	-
Total business type activities	<u>228,833</u>	<u>249,941</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,380,100</u>	<u>\$ 282,259</u>	<u>\$ 145,319</u>	<u>\$ 352,537</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Grants and contributions not restricted to				
specific purpose				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Debt service				
Sewer				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (50,409)	\$ -	\$ (50,409)
(35,801)	-	(35,801)
(15,774)	-	(15,774)
(31,630)	-	(31,630)
(188,879)	-	(188,879)
(93,009)	-	(93,009)
(179,294)	-	(179,294)
(26,297)	-	(26,297)
(621,093)	-	(621,093)
-	(392)	(392)
-	29,401	29,401
-	(7,901)	(7,901)
-	21,108	21,108
(621,093)	21,108	(599,985)
158,637	-	158,637
127,815	-	127,815
49,355	-	49,355
402	-	402
3,621	1,072	4,693
229,022	-	229,022
12,261	-	12,261
18,188	(18,188)	-
599,301	(17,116)	582,185
(21,792)	3,992	(17,800)
268,557	175,088	443,645
\$ 246,765	\$ 179,080	\$ 425,845
10,246	3,701	13,947
-	30,800	30,800
236,519	144,579	381,098
\$ 246,765	\$ 179,080	\$ 425,845

See notes to financial statements.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2005

	General	Capital Projects	Debt Service	Other Non Major Governmental Funds	Total
Receipts:					
Property tax	\$ 152,003	\$ -	\$ 49,355	\$ -	\$ 201,358
TIF revenues	-	-	-	127,815	127,815
Other city taxes	9,654	-	-	-	9,654
Licenses and permits	4,977	-	-	-	4,977
Use of money and property	11,450	-	41	-	11,491
Intergovernmental	402	352,537	-	144,478	497,417
Charges for services	15,210	-	-	200	15,410
Miscellaneous	14,143	-	-	-	14,143
Total receipts	<u>207,839</u>	<u>352,537</u>	<u>49,396</u>	<u>272,493</u>	<u>882,265</u>
Disbursements:					
Operating:					
Public safety	61,825	-	-	-	61,825
Public works	25,593	-	-	111,129	136,722
Health and social services	13,905	-	-	50,403	64,308
Culture and recreation	47,555	-	-	-	47,555
Community and economic development	10,046	179,633	-	-	189,679
General government	93,009	-	-	-	93,009
Debt service	-	-	179,335	-	179,335
Capital projects	-	378,834	-	-	378,834
Total disbursements	<u>251,933</u>	<u>558,467</u>	<u>179,335</u>	<u>161,532</u>	<u>1,151,267</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(44,094)	(205,930)	(129,939)	110,961	(269,002)
Other financing sources (uses)					
Proceeds of long-term debt	-	229,022	-	-	229,022
Operating transfers in	127,815	-	136,293	-	264,108
Operating transfers out	(118,105)	-	-	(127,815)	(245,920)
Total other financing sources	<u>9,710</u>	<u>229,022</u>	<u>136,293</u>	<u>(127,815)</u>	<u>247,210</u>
Net change in cash balances	(34,384)	23,092	6,354	(16,854)	(21,792)
Cash balances beginning of year	<u>81,139</u>	<u>(71,666)</u>	<u>3,892</u>	<u>255,192</u>	<u>268,557</u>
Cash balances end of year	<u>\$ 46,755</u>	<u>\$ (48,574)</u>	<u>\$ 10,246</u>	<u>\$ 238,338</u>	<u>\$ 246,765</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	\$ -	\$ 10,246	\$ -	\$ 10,246
Unreserved:					
General fund	46,755	-	-	-	46,755
Special revenue fund	-	-	-	190,995	190,995
Capital projects fund	-	(48,574)	-	-	(48,574)
Permanent fund	-	-	-	47,343	47,343
Total cash basis fund balances	<u>\$ 46,755</u>	<u>\$ (48,574)</u>	<u>\$ 10,246</u>	<u>\$ 238,338</u>	<u>\$ 246,765</u>

See notes to financial statements.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Other Non Major Proprietary Funds	Total
Operating receipts:				
Use of money and property	\$ 194	\$ 878	\$ -	\$ 1,072
Charges for services	140,774	84,113	25,054	249,941
Total receipts	<u>140,968</u>	<u>84,991</u>	<u>25,054</u>	<u>251,013</u>
Operating disbursements:				
Business type activities	<u>112,023</u>	<u>92,014</u>	<u>24,796</u>	<u>228,833</u>
Total operating disbursements	<u>112,023</u>	<u>92,014</u>	<u>24,796</u>	<u>228,833</u>
(Deficiency) excess of operating receipts (under) over operating disbursements	28,945	(7,023)	258	22,180
Other financing sources (uses)				
Operating transfers out	<u>(18,188)</u>	<u>-</u>	<u>-</u>	<u>(18,188)</u>
Total other financing sources	<u>(18,188)</u>	<u>-</u>	<u>-</u>	<u>(18,188)</u>
Net change in cash balances	10,757	(7,023)	258	3,992
Cash balances beginning of year	<u>62,762</u>	<u>83,833</u>	<u>28,493</u>	<u>175,088</u>
Cash balances end of year	<u><u>\$ 73,519</u></u>	<u><u>\$ 76,810</u></u>	<u><u>\$ 28,751</u></u>	<u><u>\$ 179,080</u></u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 3,701	\$ -	\$ -	\$ 3,701
Reserved for maintenance and repairs	-	30,800	-	30,800
Unreserved	<u>69,818</u>	<u>46,010</u>	<u>28,751</u>	<u>144,579</u>
Total cash basis fund balances	<u><u>\$ 73,519</u></u>	<u><u>\$ 76,810</u></u>	<u><u>\$ 28,751</u></u>	<u><u>\$ 179,080</u></u>

See notes to financial statements.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lone Tree is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens. The population of Lone Tree was 1,151 according to the 2000 census.

A. Reporting Entity

For financial reporting purposes, the City of Lone Tree has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Lone Tree has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Johnson County Emergency Management, Johnson County Housing Task Force, and the League of Iowa Cities.

Joint Ventures

The City participates in two joint ventures that provide goods or services to the citizens of the City and meet the criteria of a joint venture since there is an ongoing financial interest or responsibility by the participating governments. The City is a member of the following joint ventures: Fremont-Lincoln-Pleasant Valley Fire Association (Note 7) and the Lone Tree Library (Note 9).

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets – Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets – Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for the various capital projects financed with grants and loans.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Lone Tree, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the general government function. This was subsequently corrected with a budget amendment.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 2 – CASH AND POOLED INVESTMENTS (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2005.

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3– BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, revenue notes and bank notes are as follows:

Year Ending	General Obligation Bond		Revenue Notes		Bank Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 99,000	\$ 40,498	\$ 17,000	\$ 8,010	\$ 16,000	\$ 10,760	\$ 132,000	\$ 59,268
2007	100,000	34,197	18,000	7,500	17,000	10,120	135,000	51,817
2008	103,000	31,856	18,000	6,960	17,000	9,440	138,000	48,256
2009	65,000	27,348	19,000	6,420	18,000	8,760	102,000	42,528
2010	68,000	25,030	19,000	5,850	19,000	8,040	106,000	38,920
2011-15	373,000	87,316	105,000	20,280	107,000	28,120	585,000	135,716
2016-18	<u>259,000</u>	<u>18,795</u>	<u>71,000</u>	<u>4,290</u>	<u>75,000</u>	<u>6,080</u>	<u>405,000</u>	<u>29,165</u>
Total	<u>\$1,067,000</u>	<u>\$265,040</u>	<u>\$ 267,000</u>	<u>\$ 59,310</u>	<u>\$ 269,000</u>	<u>\$ 81,320</u>	<u>\$ 1,603,000</u>	<u>\$ 405,670</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the Note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

The City has not received all the proceeds from the revenue note as of June 30, 2005. The repayment schedule above assumes the City will borrow the remaining funds in the next fiscal year.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Unused vacation hours are paid upon termination, retirement, or death. Employees accumulate sick leave up to a maximum of 130 days. If not used this sick leave is lost upon termination, retirement, or death. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2005, is \$5,161 and \$11,081 respectively. This liability has been computed based on rates of pay as of June 30, 2005.

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$9,052, equal to the required contribution for the year.

NOTE 6 – RISK MANAGEMENT

The City of Lone Tree is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – FREMONT-LINCOLN-PLEASANT VALLEY FIRE ASSOCIATION

The City, along with the Fremont Township, Lincoln Township, and Pleasant Valley Township (the Townships) has formed the Fremont-Lincoln-Pleasant Valley Fire Association (the Association). The Association establishes terms for sharing operating expenses and joint use of equipment and facilities, so that the members can efficiently provide fire protection and emergency medical services to the citizens of the City and the Townships. The City is required to pay 48% of the annual expenses and the Townships are required to pay 52% of the expenses. The agreement continues automatically unless terminated by any party by giving notice in writing to the other parties ninety days in advance of the required termination date. The City of Lone Tree remitted \$27,505 for the year ended June 30, 2005. Financial statements for the Association can be obtained by contacting the Clerk of the City of Lone Tree.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 8 – DEFICIT FUND BALANCE

The Capital Projects Fund had a deficit balance of \$48,574 at June 30, 2005. The Special Revenue Funds, Senior Dining Fund had a deficit balance of \$9,048 at June 30, 2005. The deficits were a result of incurring costs prior to availability of funds. The deficits will be eliminated by next year's receipts.

NOTE 9 – LONE TREE LIBRARY

The City of Lone Tree and the Lone Tree Board of Education (the Board) entered into an agreement to provide library service to the residents of Lone Tree. The City remits an annual amount that the Board retains in the library budget to be used for wages and benefits of the library assistants hired by the Board to maintain library services beyond those of a normal school day. The Library Advisory Committee oversees the operation of the library and the Board. The agreement continues until either the Board or the City votes to terminate the agreement by providing notice in writing at least sixty days prior to the end of the fiscal year. The City of Lone Tree remitted \$8,474 to the Board for the year ended June 30, 2005. Financial statements of the Board may be obtained by contacting their office.

NOTE 10 – INTERFUND TRANSFERS

The detail of the interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 118,105
	Enterprise Water	<u>18,188</u>
		136,293
General	Special Revenue Urban Renewal Tax Increment	<u>127,815</u>
Total		<u>\$ 264,108</u>

NOTE 11 – COMMITMENTS

The City of Lone Tree entered into a contract with the County of Johnson, Iowa. The County, through the Johnson County Sheriff's office, will supply police protection to the City. The City agrees to pay the County \$2,860 per month for this service. The contract may be terminated by either party by providing six months written notice.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2005

NOTE 11 – COMMITMENTS (Continued)

The City of Lone Tree entered into a 28E agreement with the County of Johnson, Iowa. The County shall provide to Lone Tree, through the Johnson County SEATS, transit service for the Lone Tree Congregate meal program. The City paid \$6,240 for these services in the year ended June 30, 2005. Either party may terminate this agreement, in whole or in part, upon thirty days written notice.

On November 25, 2003 the City of Lone Tree entered into a 28E road maintenance agreement with the County of Johnson, Iowa for maintenance of roads where the City annexed certain property which will access onto the roads and right-of-ways mentioned in the agreement. The agreement sets forth the division of maintenance responsibility. This agreement shall be in effect for five years and automatically renew for an additional five year period unless the County or City objects in writing prior to the renewal date.

The City of Lone Tree entered into a 28E agreement with the Lone Tree Community School District to provide transportation to a public swimming facility in the summer months. The City is to pay for the wages of the driver. The City of Lone Tree paid \$931 for these services for the year ended June 30, 2005. This agreement terminates at August 12, 2005, however the agreement may be terminated at any time by mutual agreement of the Lone Tree Community School Board of Directors and the City of Lone Tree Council.

The City of Lone Tree entered into a 28E agreement with the Lone Tree Community Schools to provide the City with facilities for the purpose of public access to cable television. The City is responsible for purchase of all equipment. The agreement may be terminated by written mutual consent of both parties.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lone Tree
Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 201,358	\$ -	\$ 201,358
Tax increment financing collections	127,815	-	127,815
Other city taxes	9,654	-	9,654
Licenses and permits	4,977	-	4,977
Use of money and property	11,491	1,072	12,563
Intergovernmental	497,417	-	497,417
Charges for services	15,410	249,941	265,351
Miscellaneous	14,143	-	14,143
Total receipts	<u>882,265</u>	<u>251,013</u>	<u>1,133,278</u>
Disbursements			
Public safety	61,825	-	61,825
Public works	136,722	-	136,722
Health and social services	64,308	-	64,308
Culture and recreation	47,555	-	47,555
Community and economic development	189,679	-	189,679
General government	93,009	-	93,009
Debt service	179,335	-	179,335
Capital projects	378,834	-	378,834
Business type activities	-	228,833	228,833
Total disbursements	<u>1,151,267</u>	<u>228,833</u>	<u>1,380,100</u>
Excess of receipts over disbursements	(269,002)	22,180	(246,822)
Other financing sources, net	<u>247,210</u>	<u>(18,188)</u>	<u>229,022</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(21,792)	3,992	(17,800)
Balance, beginning of year	<u>268,557</u>	<u>175,088</u>	<u>443,645</u>
Balance, end of year	<u>\$ 246,765</u>	<u>\$ 179,080</u>	<u>\$ 425,845</u>

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 200,360	\$ 200,360	\$ 998
133,992	122,911	4,904
10,744	10,631	(977)
2,605	3,862	1,115
17,155	23,094	(10,531)
369,873	506,608	(9,191)
263,172	262,355	2,996
-	1,934	12,209
<u>997,901</u>	<u>1,131,755</u>	<u>1,523</u>
60,984	61,828	3
154,139	141,698	4,976
62,222	72,248	7,940
47,852	56,376	8,821
208,012	211,726	22,047
72,149	94,699	1,690
190,254	190,254	10,919
441,177	441,177	62,343
237,820	244,597	15,764
<u>1,474,609</u>	<u>1,514,603</u>	<u>134,503</u>
(476,708)	(382,848)	136,026
<u>366,105</u>	<u>270,523</u>	<u>41,501</u>
(110,603)	(112,325)	94,525
<u>468,037</u>	<u>376,526</u>	<u>67,119</u>
<u>\$ 357,434</u>	<u>\$ 264,201</u>	<u>\$ 161,644</u>

See accompanying independent auditor's report.

City of Lone Tree
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$39,994. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the general government activities function.

OTHER SUPPLEMENTARY INFORMATION

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2005

	Special Revenue			Permanent	
	Road	Urban	Senior	Cemetery	
	Use	Renewal	Dining	Perpetual	
	Tax	Tax Increment		Care	Total
Receipts:					
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -
TIF revenues	-	127,815	-	-	127,815
Intergovernmental	95,944	-	48,534	-	144,478
Charges for service	-	-	-	200	200
Total receipts	<u>95,944</u>	<u>127,815</u>	<u>48,534</u>	<u>200</u>	<u>272,493</u>
Disbursements:					
Operating:					
Public works	111,129	-	-	-	111,129
Health and social services	-	-	50,403	-	50,403
Total disbursements	<u>111,129</u>	<u>-</u>	<u>50,403</u>	<u>-</u>	<u>161,532</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(15,185)	127,815	(1,869)	200	110,961
Other financing sources (uses)					
Operating transfers out	-	(127,815)	-	-	(127,815)
Total other financing sources	<u>-</u>	<u>(127,815)</u>	<u>-</u>	<u>-</u>	<u>(127,815)</u>
Net change in cash balances	(15,185)	-	(1,869)	200	(16,854)
Cash balances beginning of year	<u>215,228</u>	<u>-</u>	<u>(7,179)</u>	<u>47,143</u>	<u>255,192</u>
Cash balances end of year	<u>\$ 200,043</u>	<u>\$ -</u>	<u>\$ (9,048)</u>	<u>\$ 47,343</u>	<u>\$ 238,338</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue fund	\$ 200,043	\$ -	\$ (9,048)	\$ -	\$ 190,995
Permanent fund	-	-	-	47,343	47,343
Total cash basis fund balances	<u>\$ 200,043</u>	<u>\$ -</u>	<u>\$ (9,048)</u>	<u>\$ 47,343</u>	<u>\$ 238,338</u>

See accompanying independent auditor's report.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2005

	Enterprise Funds		
	Garbage	Meter Deposits	Total
Operating receipts:			
Charges for service	\$ 24,404	\$ 650	\$ 25,054
Total receipts	<u>24,404</u>	<u>650</u>	<u>25,054</u>
Operating disbursements:			
Business type activities	<u>24,796</u>	<u>-</u>	<u>24,796</u>
Total disbursements	<u>24,796</u>	<u>-</u>	<u>24,796</u>
(Deficiency) excess of receipts			
(Under) over disbursements	(392)	650	258
Cash balances beginning of year	<u>8,516</u>	<u>19,977</u>	<u>28,493</u>
Cash balances end of year	<u>\$ 8,124</u>	<u>\$ 20,627</u>	<u>\$ 28,751</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 8,124</u>	<u>\$ 20,627</u>	<u>\$ 28,751</u>
Total cash basis fund balances	<u>\$ 8,124</u>	<u>\$ 20,627</u>	<u>\$ 28,751</u>

See accompanying independent auditor's report.

City of Lone Tree
Schedule of Indebtedness
For the Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds			
Sewer improvements	March 3, 1999	3.92%	\$ 1,021,000
Sewer	December 4, 1995	4.60-5.65%	385,000
Water improvements	August 7, 2003	3.00%	400,000
Total			
Revenue notes			
Water	August 7, 2003	3.00%	300,000
Bank Loan			
Street and storm sewer improvements	October 6, 2003	4.00%	300,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 624,000	\$ -	\$ 34,000	\$ 590,000	\$ 24,773	\$ -
155,000	-	35,000	120,000	8,533	-
194,063	184,937	22,000	357,000	9,442	-
973,063	184,937	91,000	1,067,000	42,748	-
17,000	44,086	17,000	44,086	1,188	-
285,000	-	16,000	269,000	11,400	-

See accompanying independent auditor's report.

City of Lone Tree
Bond and Note Maturities
For the Year Ended June 30, 2005

General Obligation Bonds							
	Sewer		Sewer Improvements		Water Improvements		
Year	Issued Dec 4, 1995		Issued Mar 3, 1999		Issued Aug 7, 2003		
Ending	Interest		Interest		Interest		
June 30,	Rates	Amount	Rates	Amount	Rates	Amount	Total
2006	5.45%	40,000	3.92%	36,000	3.00%	23,000	99,000
2007	5.55%	40,000	3.92%	37,000	3.00%	23,000	100,000
2008	5.65%	40,000	3.92%	39,000	3.00%	24,000	103,000
2009	-	-	3.92%	40,000	3.00%	25,000	65,000
2010	-	-	3.92%	42,000	3.00%	26,000	68,000
2011	-	-	3.92%	43,000	3.00%	26,000	69,000
2012	-	-	3.92%	45,000	3.00%	27,000	72,000
2013	-	-	3.92%	47,000	3.00%	28,000	75,000
2014	-	-	3.92%	48,000	3.00%	29,000	77,000
2015	-	-	3.92%	50,000	3.00%	30,000	80,000
2016	-	-	3.92%	52,000	3.00%	31,000	83,000
2017	-	-	3.92%	54,000	3.00%	32,000	86,000
2018	-	-	3.92%	57,000	3.00%	33,000	90,000
Total		\$ 120,000		\$ 590,000		\$ 357,000	\$ 1,067,000

Year Ending June 30,	Revenue Notes		Bank Loans	
	Water		Street/Storm Sewer	
	Issued Aug 7, 2003		Issued Oct 6, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2006	3.00%	17,000	4.00%	16,000
2007	3.00%	18,000	4.00%	17,000
2008	3.00%	18,000	4.00%	17,000
2009	3.00%	19,000	4.00%	18,000
2010	3.00%	19,000	4.00%	19,000
2011	3.00%	20,000	4.00%	20,000
2012	3.00%	20,000	4.00%	21,000
2013	3.00%	21,000	4.00%	21,000
2014	3.00%	22,000	4.00%	22,000
2015	3.00%	22,000	4.00%	23,000
2016	3.00%	23,000	4.00%	24,000
2017	3.00%	24,000	4.00%	25,000
2018	3.00%	24,000	4.00%	26,000
Total		<u>\$ 267,000</u>		<u>\$ 269,000</u>

See accompanying independent auditor's report.



319/837-6042

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Lone Tree, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lone Tree as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated May 17, 2006. My report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Lone Tree's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Lone Tree's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items II-A-05 and II-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lone Tree's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Lone Tree and other parties to whom the City of Lone Tree may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Lone Tree during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
May 17, 2006

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2005**

Part I: Summary of the Independent Auditor's Results:

- A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts journal, payroll processing and disbursement, and cash disbursements and recording are all done by the same person.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2005**

Part II: Findings Related to the Financial Statements: (continued)

II-B-05

Countersignature of Checks – Checks are signed only by the Clerk/Treasurer, who has almost complete control over the accounting system of the City.

Recommendation – Checks should be prepared and signed by one individual and then the supporting documentation should be made available, along with the check, to a second independent individual for review and countersignature.

Response – We will review our procedures.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-05

Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05

Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the general government activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-C-05

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2005**

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-E-05

Business Transactions – No business transactions between the City and City officials or employees were noted.

III-F-05

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-05

Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not.

III-H-05

Deposits and Investments – There were three certificates of deposit that the interest rate was not in accordance with statutory rates established by the State Rate Setting Committee.

Recommendation – The City should review rates with the bank to assure that they are in compliance.

Response – We will review rates in the future as recommended.

Conclusion – Response accepted.

III-I-05

Annual Financial Report – The City filed and published the annual financial report by the December 1, 2005 deadline. However, the amounts reported do not reconcile to the general ledger, primarily due to the cemetery fund being excluded from the governmental funds and the meter deposit funds being excluded from the proprietary funds.

Recommendation – The City should include the cemetery funds in the governmental funds and the meter deposit funds in the proprietary funds columns of the annual finance report in the future.

Response – We will make this change for next year.

Conclusion – Response accepted.

III-J-05

Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2005**

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-K-05

General Obligation Bonds and Notes – The City has complied with all requirements of the general obligation bonds and notes.

III-L-05

Financial Condition – The Capital Projects Fund had a deficit balance of \$48,574 and the Special Revenues Funds, Senior Dining Fund had a deficit balance of \$9,048.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response – The deficit in the Capital Projects Fund was due to construction costs incurred prior to receipt of grant or loan funds. This deficit was subsequently eliminated. We will investigate alternatives to eliminate the deficit in the Special Revenues Fund, Senior Dining Fund to return this account to a sound financial position.

Conclusion – Response accepted.

City of Lone Tree

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA